



TWELFTH KERALA LEGISLATIVE ASSEMBLY

**COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2008-2011)**

EIGHTY FIRST REPORT

(Presented on 16th March, 2010)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2010

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On

**Travancore Sugars and Chemicals Limited based on the Report of the
Comptroller and Auditor General of India for the year
ended 31st March 2005 (Commercial)**

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Smt. L. Sailaja, Under Secretary.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2008-2011) having been authorised by the Committee to present the Report on their behalf, present this Eighty First Report on Travancore Sugars and Chemicals Limited based on the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2005 (Commercial) relating to the Government of Kerala.

The Report of the Comptroller and Auditor General of India for the year ended 31st March 2005, was laid on the Table of the House on 13-2-2006. The consideration of the audit paragraphs included in this Report and the examination of the departmental witness in connection thereto was made by the Committee on Public Undertakings constituted for the years 2008-2011.

This Report was considered and approved by the Committee at the meeting held on 13-1-2010.

The Committee place on record their appreciation of the assistance rendered to them by the Accountant General (Audit), Kerala in the examination of the Audit Paragraphs included in this Report.

The Committee wish to express their thanks to the officials of the Industries Department of the Secretariat and Travancore Sugars and Chemicals Limited for placing before them the materials and information they wanted in connection with the examination of the subject. They also wish to thank in particular the Secretaries to Government Industries Department and Finance Department and the officials of the Travancore Sugars and Chemicals Limited who appeared for evidence and assisted the Committee by Placing their considered views before the Committee.

MANKODE RADHAKRISHNAN,

Thiruvananthapuram,
16-3-2010.

*Chairman,
Committee on Public Undertakings.*

REPORT

TRAVANCORE SUGARS AND CHEMICALS LIMITED

AUDIT PARAGRAPH

The Company engaged in the production of Indian Made Foreign Liquor (IMFL), invited (March 2004) tenders for the purchase of 10 lakh bulk litres (BL) of Extra Neutral Alcohol (ENA), a major raw material. As per conditions of the tender, the Company reserved the right to accept or reject or negotiate any tender without assigning any reasons. The lowest rate of Rs. 30.50 per BL was offered by Anjana Traders and Agencies, Kochi (ATA). ATA being a transporter of molasses for the Company, had not furnished the security deposit on the ground that the amounts due to them from the Company should be considered as security. The Company rejected (16 April 2004) this lowest offer on the ground of insufficient security deposit. ATA had agreed (17 April 2004) to supplement the shortage, if any, in security deposit and to supply the entire quantity at the quoted rate of Rs. 30.50 per BL. Before considering the request of ATA, the contract was awarded (30 April 2004) to Michael & Michael Chemicals, Goa (M&M) at Rs. 34.70 per BL. The request of ATA was finally considered by the Board only on 12 May 2004 and the contract awarded to M&M was also cancelled (May 2004) on the ground that the rate quoted was very high and unprofitable.

On retender (May 2004), the contract was awarded to ATA itself at a higher rate of Rs. 34.25 per BL restricting the quantity to 5 lakh BL. While accepting the higher offer, the Company agreed to adjust the dues outstanding against ATA as security deposit whereas the same option was not considered when the firm offered the lower rate of Rs. 30.50 per BL in April 2004.

For the balance quantity of 5 lakh BL, orders were placed (November 2004) on Chandra Babu. C, Trivandrum at Rs. 38.66 per BL. The quantity procured against the above two orders was 5 lakh BL and 4.995 lakh BL respectively.

It was noticed during audit that the Company was aware of the increasing trend in price of ENA from Rs. 25.72 per BL in March 2004 to Rs. 30.50 per BL in April 2004. Instead of availing the advantage of the lowest price offered (April 2004), by ATA, the Company awarded the contract to M&M at higher rates and took a decision (May 2004) to cancel this order and to reconsider the offer of ATA in May 2004, after a period of one month. Though the intention of cancelling the orders with M&M was to avail of the benefit of lowest rate of Rs. 30.50 per BL offered by ATA in April 2004, this benefit could not be

derived due to the decision of the Company to retender instead of accepting the offer of ATA. The order quantity of 10 lakh BL was also unnecessarily split and subsequent orders were placed at the enhanced rates. By not accepting the offer of ATA for 10 lakh BL at Rs. 30.50 per BL in April 2004 itself, the Company had incurred avoidable expenditure of Rs. 59.51 lakh on the procurement of 9.995 lakh BL of ENA. The matter was reported to Management/Government (June 2005); their replies have not been received (September 2005).

[Audit Paragraph 4.3 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2005.]

The notes furnished by Government on audit paragraph is given in Appendix II.

1. The Committee finds that instead of availing the advantage of the lowest price offered by Anjana Traders and Agencies, the Company awarded the contract for purchasing ENA to M&M at higher rates and took a decision to cancel the order to reconsider the offer of ATA at a rate higher than the lowest rate offered by them initially. The Committee wanted an explanation from the witness regarding the purchase. The Managing Director Travancore Sugars & Chemicals Ltd. stated that as per the decisions of the Board of Directors, the Company had ordered 10 lakh Bulk litres of ENA @ Rs. 30.50 per Bulk litre. But due to failure of Anjana Traders to enclose EMD along with tender documents the tender was rejected and the order was given to the second lowest tenderer for Rs. 34.70 / Bulk litre.

2. Thereafter Anjana Traders sent a letter showing interest to supply ENA @ Rs. 30.50 per Bulk litre. The Board then decided to cancel the first tender and to retender with the objective of enjoying the lower rate. The witness informed the Committee that when it was retendered Anjana Traders quoted the lowest rate which was definitely higher than the rate they initially offered and provided the required EMD. It was then that the orders for 500000 Bulk litres of ENA was placed with Anjana Traders.

3. The Committee noticed that in the initial tender the Company had seen the rates quoted by all participants, before rejecting the offer of Anjana Traders for want of EMD. This could enable Anjana Traders to quote a higher rate next time which could be safely fixed below rates quoted by others. This was possible because the Company didn't follow the right tender system in which it should be stipulated that EMD and tender documents should be in separate covers. In such a system prequalification for eligibility could be decided on opening EMD cover, and cover of tender documents of only qualified participants had to be opened.

4. The Committee found that, within one and a half month the rate quoted by Anjana Traders had increased from Rs. 30.50 to Rs. 34.25, owing to the defective tender system followed by the Company. The Committee enquired why the Company reduced the quantity from 1000000 litres to 5 lakh litres. The witness replied that it was done to ensure more participation in the tender and that the Board had taken the decision to float tender for 5 lakhs litres. When invited tender after 6 months the price had gone up to Rs. 38 per litre. The Committee wanted to take steps for stopping this unhealthy practice and adopting the right system of purchase. The witness agreed to take necessary steps to refine its present tender system to make it legally transparent.

Conclusions/Recommendations

5. The Committee finds that the Company awarded the contract for purchasing ENA to M&M and then cancelled the order to reconsider the offer of Anjana Traders at a rate higher than the rate offered by them initially. The Committee notices that in the first tenders the Company had seen the rate quoted by all participants before rejecting the lowest rate offered by Anjana Traders for want of EMD. The Committee finds that the tender system adopted by the Company enabled Anjana Traders to quote a higher rate below the rates quoted by others. Therefore the Committee recommends to adopt the right system of purchase and to refine its tender system in such a way that it stipulates submission of EMD and tender documents in separate covers so that instances like this could be avoided in future.

6. The Committee views that unnecessary splitting up of the initial tender for 10,00,000 litres to 5,00,000 litres was economically unviable. The contention that the Board of Directors of the Company had taken this decision to ensure more participation in tender doesn't stand valid as the Company had to place further orders at enhanced rates there by incurring avoidable expenditure. After awarding contract to M&M at Rs. 34.70 BL, the Board's decision to cancel the same and to retender was to enjoy the lower rate of Rs. 30.50/BL at which Anjana Traders again expressed willingness to supply ENA. However on retender Anjana Traders quoted Rs. 34.25 BL and the actual advantage expected on retender couldn't be enjoyed. The Committee wants to get justification for the rejection of the initial quote from Anjana Traders for want of EMD, inspite of their request to adjust the amount due from the Company to them as EMD and later, on retender, accepting the same dues as EMD. The initial rejection and subsequent acceptance of dues as EMD, on retender, landed up in payment of increased price.

7. The Committee concludes that the Board's decisions to reject the initial quote, unnecessarily split up the order quantity and retender supply of ENA turned out to be unfruitful. The Committee directs that in future decisions should be taken based on reasonable grounds so that losses on account of unwise decisions can be avoided.

Thiruvananthapuram,
16-3-2010.

MANKODE RADHAKRISHNAN,
Chairman,
Committee on Public Undertakings.

APPENDIX I

Summary of main Conclusions/Recommendations

<i>Sl. No</i>	<i>Paragraph No.</i>	<i>Department Concerned</i>	<i>Conclusions/Recommendations</i>
(1)	(2)	(3)	(4)
1	5	Industries	The Committee finds that the Company awarded the contract for purchasing ENA to M&M and then cancelled the order to reconsider the offer of Anjana Traders at a rate higher than the rate offered by them initially. The Committee notices that in the first tenders the Company had seen the rate quoted by all participants before rejecting the lowest rate offered by Anjana Traders for want of EMD. The Committee finds that the tender system adopted by the Company enabled Anjana Traders to quote a higher rate below the rates quoted by others. Therefore the Committee recommends to adopt the right system of purchase and to refine its tender system in such a way that it stipulates submission of EMD and tender documents in separate covers so that instances like this could be avoided in future.
2	6	„	The Committee views that unnecessary splitting up of the initial tender for 10,00,000 litres to 5,00,000 litres was economically unviable. The contention that the Board of Directors of the Company had taken this decision to ensure more participation in tender doesn't stand valid as the Company had to place further orders at enhanced rates

(1)	(2)	(3)	(4)
			<p>there by incurring avoidable expenditure. After awarding contract to M&M at Rs.34.70/BL, the Board's decision to cancel the same and to retender was to enjoy the lower rate of Rs. 30.50/BL at which Anjana Traders again expressed willingness to supply ENA. However on retender Anjana Traders quoted Rs. 34.25/B.L and the actual advantage expected on retender couldn't be enjoyed. The Committee wants to get justification for the rejection of the initial quote from Anjana Traders for want of EMD, inspite of their request to adjust the amount due from the Company to them as EMD and later, on retender, accepting the same dues as EMD. The initial rejection and subsequent acceptance of dues as EMD, on retender, landed up in payment of increased price.</p>
3	7		<p>The Committee concludes that the Board's decisions to reject the initial quote, unnecessarily split up the order quantity and retender supply of ENA turned out to be unfruitful. The Committee directs that in future decisions should be taken based on reasonable grounds so that losses on account of unwise decisions can be avoided.</p>

APPENDIX II

<i>Para No.</i>	<i>Action Taken</i>
(1)	(2)
4.3	<p>As resolved by the Board of Directors in their meeting held on 17-3-2004, company called for the tender on 15-4-2004. As per clause '18' of the tender notice dated 18-3-2004 it was stipulated that "The tender is required to furnish an EMD of Rs. 2 lakhs along with the tender by way of D.D. drawn in favour of Travancore Sugars & Chemicals Ltd., payable at any nationalized Bank, Thiruvalla". Further as per clause 21 of the tender notice it was required that the tender should furnish credentials to substantiate his/their previous experience, reputation and should also furnish attested copy of Pan Card or income-tax clearance certificate along with the tender. As per clause 22 it was also stipulated that the tender will be opened in the presence of available tenderers on 16-4-2004 at 11.30 a.m. at Government Guest House, Thiruvananthapuram.</p> <p>As per the tender notification Company received four tenders and the same were opened on 16-4-2004 at Government Guest House, Thiruvananthapuram in the presence of the Chairman, Board of Directors of the Company and the tenderers who were present there. At the time of the opening of the tender the representative or Proprietor of M/s. Anjana Trades & Agencies was not present there. While opening the tender, it was observed that M/s. Anjana Trades & Agencies has not furnished the required EMD of Rs. 2 lakhs and also the documents as stipulated in the tender notice. In the format of the tender form regarding EMD details M/s. Anjana Trades & Agencies stated that "may be transfer from molasses transport contract". Since the rate quoted by M/s. Ajana Trades & Agencies was the lowest, immediately the Managing Director contacted the office of the company and ascertained whether any amount is due to M/s. Anjana Trades & Agencies. On verification of his accounts, it was found that an amount of Rs. 51,730 only was due to M/s. Anjana Trades & Agencies towards transportation of molasses and that too was under dispute and the company has not given any confirmation to M/s. Anjana Trades & Agencies regarding the said amount at that time. This amount of Rs. 51,730 was not sufficient for the EMD of Rs. 2 lakhs</p>

(1)	(2)
	<p>stipulated in the tender. Before giving the tender also he has neither confirmed the amount due to him from the company nor gave any application to transfer any such amount as EMD for his tender. Moreover, when the undersigned contacted Sri. Sankaran the Proprietor of M/s. Anjana Trades and Agencies over phone whether he can raise the EMD amount in DD within 3 days, he informed that as the price of ENA has been shooting up day by day, he was not serious to the tender and that was why he did not enclose the EMD and not ready to raise EMD deposit. In the circumstances, the Board decided to reject his tender as per clause 18 of the tender conditions. The Board further decided to award the tender to M/s. Michael and Michael who quoted the second lowest rate i.e. 34.70 per BL. Again, before the execution of agreement with Sri. Michael, Sri. Sankaran was once again contacted through over phone to ascertain whether he can raise Rs. 2 lakhs as EMD in order to award the tender to him if he is ready. But he was not at all ready. Subsequently agreement for the supply of 10 lakh BL. of ENA on landed cost was entered between M/s. Michael and Michael and the Company on 30-4-2004. Later, after about 20 days of tender, Sri. Sankaran, Proprietor of M/s. Anjana Trades and Agencies sent a letter which was received by the company on 6-5-2004 stating that he is prepared to supply ENA at the rate quoted by him i.e. Rs. 30.50 per BL. In response of his letter, Company vide letter dated 6-5-2004 asked him to produce attested copy of Income-tax Pan Card or Income-tax clearance certificate as stipulated in the tender form dated 18-3-2004.</p> <p>Further, an urgent meeting of the Board of Directors of the Company was convened on 12-5-2004 and the Board discussed regarding the request of Sri. K. Sankaran of M/s. Anjana Trades and Agencies. Since the Board observed that M/s. Anjana Trades and Agencies has not furnished the required EMD either along with his tender dated 15-4-2004 or along with his letter dated 6-5-2004 or he was not ready to raise the EMD amount at the time of Board on 12-5-2004, the Board decided that it was not legal to award tender to M/s. Anjana Trades and Agencies based on his letter which was received by the</p>

(1)	(2)
	<p>Company on 6-5-2004 i.e. after the execution of agreement with another tender viz. M/s. Michael and Michael. So after detailed discussions, with the hope for getting a lower rate of Rs. 30.50 from Sri. K. Sankaran himself based on his letter and his personal promise before the Board during his presence in the Board meeting on 12-5-2004, the Board unanimously decided to cancel the agreement dated 30-4-2004 entered into by the Company with M/s. Michael and Michael at the rate of Rs. 34.70 per BL. It was only under this circumstance the contract with Sri. Michael was cancelled and not as observed in an audit enquiry, that as “the company felt that the rate quoted was very high and unprofitable”. The Board of Directors also decided to retender for the supply for ENA for 5 lakh BLs for a period of six months from 1-6-2004 to 30-11-2004 as the price of ENA was fluctuating day by day. As elaborated above, it may be noted that M/s. Anjana Trades and Agencies has not furnished EMD along with his tender or did not make any undertaking regarding the remittance of EMD either at the time when he was contacted immediately after opening the tender or before the agreement with Sri. Michael or by his letter dated 6-5-2004 or during his personal presence at the time of Board on 12-5-2004.</p> <p>As observed in the Audit Enquiry, the supplier had not at any time expressed his willingness or readiness to meet the shortfall in EMD. Also he was not a regular supplier of ENA to the Company at any time before 16-4-2004 other than a transportation contractor for molasses from Dharmapuri Sugar Mills during the period from 9-7-2002 to 16-12-2002. He did not have any proven track record also with the company. For making such above observation by the audit team, there are no corresponding records existing in the company.</p> <p>But in the fresh tender dated 25-5-2004 Sri. K. Sankaran has not quoted his rate offered in his letter dated 6-5-2004 and quoted the rate Rs. 34.90. But since that rate was the lowest on that tender the Board of Directors negotiated with him and he has with Rs. 34.25 per BL. Since the price of ENA was increasing throughout the country due to drought in the sugarcane growing states, and some distilleries were supplying a</p>

(1)	(2)
	<p>portion of their spirit production to Petroleum Companies and as the stock of ENA was completely exhausted in the Company, to avoid the stoppage in bottling operations, after negotiation with him, the Board of Directors however finalized the tender at Rs. 34.25, in his favour.</p> <p>To get more competitive tenders, company had invited tenders for bulk quantity. Even though the tender was floated for bulk quantity, company reserved its right to reduce the quantity while executing the Agreement with the successful tenderer. In such situation company could cancel the quantity at any time if the price had fallen down, to the advantages of the company. Moreover, as the cost of ENA were not steady and it was fluctuating during the year 2004 due to the shortage of raw materials like sugarcane and molasses for making ENA throughout India, if the price shoot up enormously there had all possibilities to withdraw from the agreement by the contractor, causing all difficulties by affecting production of the company. To avoid all these situations, the Board decided to invite tenders for six months period. In this context an identical reality that happened in a subsequent tender may be noted. In the tender dated 6-11-2004 the lowest rate offered by the supplier was Rs. 38.66 per BL. and he has supplied for 6 months in that rate. But for the subsequent tender dated 3-5-2005 the rate received was Rs. 36.24 i.e. less than Rs. 2.42. If we were accepting the rate of Rs. 38.66 for the supply of ENA for one whole year period of 2005, the price difference of the total quantity of ENA to be supplied would be on higher side i.e. Rs. 24.20 lakhs for 10,00,000 BLS (Ten lakhs) of ENA in the coming months.</p> <p>From the facts stated above, it is clear that company followed all norms and legal procedures in inviting the tender accepting the lowest rate as per the conditions stipulated in the tender form and the decision to reject the tender of M/s. Anjana Trades & Agencies on 16-4-2004 was quite legal as he was not furnished the required EMD of Rs. lakhs stipulated in the tender. Moreover, all the decisions were taken by the Board of Directors unanimously only for the benefit of the Company.</p>